

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5760

DEPARTMENT OF LICENSING

Agency No. 240

July 1, 1995 Through June 30, 1996

Issue Date: February 14, 1997

TABLE OF CONTENTS

	Page
Overview	1
Schedule Of Findings:	
1. The Department Of Licensing (DOL) Should Improve Controls Over Fixed Assets	2

DEPARTMENT OF LICENSING
Agency No. 240
July 1, 1995 Through June 30, 1996

Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of Licensing included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There was one finding, which is listed in the Schedule of Findings following this Overview, for the Department of Licensing.

Brian Sonntag
State Auditor

December 31, 1996

DEPARTMENT OF LICENSING
Agency No. 240
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Department Of Licensing (DOL) Should Improve Controls Over Fixed Assets

Our examination of fixed assets at DOL disclosed that during the 1996 physical inventory the agency could not locate 362 assets with an undepreciated cost of \$522,300. These missing assets consisted primarily of computers and computer related equipment. We also noted the agency's last physical inventory was completed in August 1992.

The State of Washington Office of Financial Management (OFM) *Financial and Administrative Policies, Regulations, and Procedures* manual lists the following internal control requirements for fixed assets.

Section 3.2.2.1.2.b. states in part:

A satisfactory fixed asset inventory system must include mechanisms and procedures for controlling the addition to and removal from inventory as well as the safeguarding of those assets currently held.

Section 3.1.2.2.11.a. states:

Agencies are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every two years.

DOL personnel stated that a lack of staff resources and other higher priority tasks made it difficult to comply with OFM fixed asset procedures.

Without maintaining complete and accurate fixed asset records, DOL cannot ensure proper reporting, safeguarding, and accountability of state property and equipment.

We recommend the Department of Licensing:

- a. Take appropriate action to remove the items from the agency's inventory records in the instances where the fixed assets cannot be found.
- b. Comply with OFM regulations for disposition and safeguarding of fixed assets.
- c. Complete physical counts of fixed assets in accordance with OFM regulations.

Auditee's Response

The Department acknowledges the delay in completing the physical inventory and the assets that were not located. However, we would like to provide the following clarifying information:

- *Since the last physical inventory was conducted in August 1992, due to building renovations, more than 400 headquarters staff were relocated from the Highways Licenses Building to the General Administration Building and back. At the time of the first move, a request was submitted to the Office of Financial Management requesting authorization to delay the next inventory until we re-occupied the Highways Licenses Building. However, in reviewing our records, we can find no record that this request was approved.*
- *Upon re-occupying the Highways Licenses Building, the inventory was initiated. Initial inventory results showed more than \$2.5 million in missing assets. Since we believed that this was not an accurate accounting of agency fixed assets, a decision was made to extend the inventory in an attempt to locate the missing items. This extended effort resulted in the location of more than \$2 million in assets, thereby reducing the amount of missing items to the \$522,300 identified in this finding.*
- *The \$522,300 value represents the undepreciated value of the equipment at the time it was purchased. The majority of the missing items are pieces of technology equipment that are now obsolete and of little or no value.*

To improve the controls over our fixed assets, DOL is conducting a thorough analysis of its asset management practices to ensure that oversight is clearly defined and well understood at each point where assets are managed throughout the agency. In addition, our 1997-99 operating budget request includes a request for a full time asset management position to manage a centralized inventory data base and to coordinate policies and procedures governing oversight of agency fixed assets.

Auditor's Concluding Remarks

We appreciate the agency's commitment to resolution of these issues and thank agency staff for their cooperation and assistance during our audit. We will review corrective action during the course of our next audit.